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SUBJECT: NO LIGHT AT THE END OF THE RAILROAD TUNNEL IN TRANSNISTRIA

Sensitive But Unclassified. Please Protect Accordingly.

11. (SBU) Summary: In contrast to other, more successful working groups between Chisinau and Transnistrian authorities, the newly created Working Group on Railroads, which met for the first time on July 7, has revealed the greatest difficulties: Transnistria wants the railroads to resume service, for political and economic reasons, but Chisinau does not recognize Transnistrian Railroads as a legal entity. End Summary.

Railroads: Most Contentious of Working Groups  
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12. (SBU) The newly created Working Group on Railroads met on July 7, 2009 at the OSCE offices in Bender. As expected, Chisinau and Tiraspol failed to make any progress in resolving the complex problem of railroad transportation in the region, but agreed to meet again in early September. While Tiraspol wants a resumption of full-scale railroad transportation in the Transnistrian region, Chisinau does not recognize Transnistrian Railroads as a legal entity and maintains that the railroad lines and cars are still the property of Moldova Railroads. Of all the various working groups that have met to date, including roads, health, ecology and economy, this meeting was by far the most contentious, a reflection of the intractable nature of the problem underlying the discussions.

Confidence-Building Process Resumed  
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13. (SBU) This was the first meeting of the railroad working group, though the same group of Chisinau and Tiraspol railroad operators and transportation authorities had met once before in April 2008, under the aegis of the European Union, to discuss railroad transportation issues. In addition to the railroad specialists from the two sides, the meeting was also attended by the mediators and observers in the 5+2 format, i.e. OSCE, Russian Embassy, Ukrainian Embassy, EU, and U.S. Embassy. The July meeting was the first out of four meetings of confidence-building-measures working groups proposed by Tiraspol, following informal 5+2 consultations in Vienna on June 22. The other three working groups (on roads, health care and ecology) are scheduled to meet on July 9, 13, and 15, respectively.

Tiraspol's Three Demands  
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14. (SBU) After a brief exchange of opinions on whether this was the first or the second meeting of the railroad working group (i.e., whether the meeting chaired by the EU should be counted as part of the Working Group process), the sides presented their positions. The Tiraspol delegation listed three issues for discussion: 1) resumption of passenger transportation between Chisinau and Odessa, Ukraine (through Bender and Tiraspol); 2) allowing shipment of cargo to and from Tiraspol and Bender stations; and 3) resumption of

traffic on the Rybnitsa-Slobodka, Ukraine line. (Note: this line is closed and not fully functional, but Ukrainian trains use it to cross the border and ship scrap metal to the Rybnitsa Steel Plant. End note.)

#### Tiraspol and Chisinau: Status Quo Vs Status Quo Ante

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15. (SBU) The Moldovan delegation put property issues in first place.

Chisinau does not recognize Transnistria Railroads as a legal entity, and maintains that its assets all still belong to Moldova Railroads (CFM). Chisinau argued that CFM is the only internationally recognized party to the relevant international treaties and agreements. As such, CFM is the only entity which can bear responsibility for traffic security and passenger/cargo safety on the entire territory of Moldova. The Chisinau delegation proposed that the status quo ante be restored, i.e. that the sides resume the activity of the joint Chisinau-Tiraspol Technical and Economic Council, where the sides had previously cooperated in joint management of Transnistrian segment of the railroad. The Chisinau delegation proposed that Tiraspol submit its proposals to amend the Regulation of the Council to meet Transnistria's new demands relating to distribution of the company's revenues. Tiraspol rejected Chisinau's proposals, arguing that the Council did not respond to the new realities that a new legal entity--Transnistria Railroads--had been created. Chisinau does not recognize Transnistria Railroads, and hence the interaction between the two sides periodically degenerated into a shouting match.

#### Business and Politics: How Can Steel Bypass Moldova?

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16. (SBU) Tiraspol proposed that traffic be restored on the Rybnitsa-Slobodka line under terms similar to those in the temporary

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agreement signed by Moldovan, Russian and Ukrainian railroad operators in December 2006, and extended every year. This temporary trilateral agreement established the terms for transit traffic through Transnistria. In particular, the agreement stipulated that Russia and Ukraine bear the responsibility for security and safety of their respective trains and cargo transiting Transnistrian territory where the railroad is not effectively controlled by CFM. The Transnistrian side presented its draft of such a trilateral agreement. CFM representatives accepted the Transnistrian draft with little enthusiasm, and promised to examine it and present their conclusions at the next meeting.

17. (SBU) Comment: We assume that Chisinau's answer will be negative for both political and legal reasons, since the Rybnitsa-Slobodka line connects the MMZ steel plant directly with Ukraine and the outer world. Even though officially this line is not functional, MMZ uses it for its illegal imports (i.e., imports not registered with Moldovan customs). If the traffic were to be officially resumed there, MMZ would also be able to use it for illegal exports directly through Ukraine, thus avoiding Moldovan territory and Moldovan customs posts. For these reasons, Transnistria considers it essential to have this line open, while for Chisinau it is essential to preserve the status quo until a broader political and economic settlement of the conflict is completed. End comment.

#### Property Is at Stake

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18. (SBU) Several minor disagreements between Chisinau and Tiraspol were also discussed, such as Chisinau's desire to have Moldovan transportation police on Transnistrian territory as a pre-condition for resuming passenger traffic (rejected by Tiraspol), and Chisinau's desire that tickets be sold only in exchange for Moldovan currency. However, the fundamental underlying controversy that makes it impossible to reach any agreement on the smaller issues remains whether or not Transnistria Railroads would be recognized as a legal entity and whether the railroad infrastructure and trains in Transnistria still belong to CFM or to the newly created Transnistrian operator. Chisinau will not accept ceding its property, and under the current circumstances and leadership,

Tiraspol will not give up on having its own railroad operator.

Operations United Until 2004

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¶9. (SBU) Compounding the difficulties is the fact that the Moldovan Railroad Company (CFM) had operated as a united operator on the entire territory of the Republic of Moldova, including Transnistria, as recently as the summer of 2004. In 2004, Transnistrian authorities decided to create a railroad company of their own and forcibly seized all assets and trains of CFM located in Transnistria. Despite this, train traffic continued to move through Transnistria relatively uninterrupted for another two years. Tiraspol suspended railroad traffic in March 2006 after Moldova and Ukraine enforced the new customs rules requiring Transnistrian exporters to register their cargo with Moldovan customs. Since then, the railroad lines across Transnistria have been open only for transit cargo trains from Russia and Ukraine and one passenger train weekly running between Moscow and Chisinau. Transnistrian enterprises cannot ship their cargo from any of the three stations in the region--Tiraspol, Bender or Rybnitsa.

Leadership Revenues Also at Stake

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¶10. (SBU) The other reason which feeds Tiraspol's firm stance is the business interest of the region's top leadership. Transnistria's railroad operator provides transportation services through an intermediate shipping company based in Odessa, Ukraine, and owned by Smirnov and "Vice President" Alexander Koroliov. Re-uniting the two railroads under Moldovan operation would leave Smirnov and Koroliov without this major source of revenues.

Comment:

¶10. (SBU) Given the difficulties noted above, confidence-building measures on cross-river railroad issues are the least likely to be on track in the foreseeable future.

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